Subject: XPO continued
From: Martin Zeman [redacted]>
Date: Fri, 20 Jul 2018 11:16:09 -0400
To: "Paul Barrett ([redacted])" <[redacted]>
Cc: Stewart Oldfield <[redacted]>

So the stock is currently at 10x multiple. Below a few paragraphs from recent research pieces:

June 28 -> XPO buying opportunity - We have fielded several questions from Investors in recent days on weakness in XPO's shares. Indeed, XPO's shares are down over 15% from recent highs achieved just two weeks ago. The weakness undoubtedly is on the back of declines across the broader transports/industrials tape (XLI down 7% over the same period), reflecting broader economic concerns around durable goods orders, trade wars and flattening yield curve, as well as likely profit-taking after significant outperformance over the last 12 months. Despite these valid factors, we view the recent weakness in XPO's shares as a rare buying opportunity, which comes along once in a while and is usually followed by significant outperformance. To be sure XPO’s LTL business is indeed cyclical, though less so given company-specific profit improvement drivers, as evidenced by a doubling of operating profit from 2015 to 2017 (EBIT +$220M) on relatively flat revenue growth (+$66M). Meanwhile, XPO’s other businesses (which account for the vast majority of revenue and the majority of EBITDA) are firing on all cylinders. For example, the company announced yesterday that it will add augmented reality technology to its Last Mile business, which will allow customers to use smartphones to see how certain appliances will look in their homes before purchasing (thus reducing costly returns as well as improve efficiency). This technology, as well as other initiatives, are likely to continue allowing XPO to dominate the Last Mile market, as well as capture significant share of growth in Contact Logistics - both businesses that together account for half the company’s sales. From a stock standpoint, applying next year’s FCF to current year FCF yield (4.4%) translates to a share price of $132, or 34% upside vs. current levels, with likely significant upside beyond this on the back of M&A and FCF growth beyond 2019. Maintain Buy/Top Pick.

June 19 -> XPO contract – XPO announced yesterday that it is constructing a 638K state-of-the-art distribution center alongside transnational food and beverage company Nestlé. As part of the strategic partnership, XPO will manage the distribution of Nestlé’s consumer packaged goods and bring efficiencies to its supply chain. The facility will also serve as a testing ground for XPO’s newest automation and warehouse technologies, which it is co-developing with Swisslog Logistics Automation. The UK distribution center is expected to be operational by 2020. Overall, we believe business wins similar to this deal should continue to fuel organic growth for XPO as its business model evolves from half cyclical/half secular to entirely secular.

May 4 -> XPO results – XPO's 1Q results were solid, but what stood out to us was potential for strong organic growth trends to be sustained, if not accelerate, as XPO's business model evolves from half cyclical/half secular to entirely secular. XPO Direct, for example, has potential to be a significant driver of incremental growth over time, in our view, as the company leverages its investments in technology and footprint to offer solutions for omni-channel retailers (at little incremental cost). Growth in this e-commerce centric business should become a feeder to XPO's LTL and brokerage businesses, which could mute cyclicality and allow XPO to further penetrate the robust e-commerce market. Perhaps most attractive, these growth opportunities come with little incremental cost or capital, allowing higher revenue to translate to much higher free cash flow. Based on these observations we have increased our 2019 FCF estimate to $843M (from $800M), with plenty of add'l growth opportunity in 2020 and beyond. As such we see a relatively clear path to our $133 price target, which is based on an unchanged 4.5% fcf yield. Maintain Buy/Top Pick.

{cid:image001.gif@01D259D5.3E2DF0F0}

Martin Zeman
Director | Key Client Partners

Deutsche Bank Wealth Management
DB Securities Inc

345 Park Avenue, 10154-0004 New York, NY, USA
Tel. [redacted]
Mobil[redacted]
Email[redacted]